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Guest Room

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by Mitch Fagen

Fresh into his second term, President George W. Bush wants Congress to approve a plan to partially phase-out Social Security and replace it with private accounts. He says that this is necessary to save the system from disaster and bankruptcy and that young people need his brand of "reform" more than most. "I want you to think about a Social Security system that will be flat bust, bankrupt, unless the United States Congress has got the willingness to act now..." he declared. Social Security will run out of money in the year 2018, his administration warns, and it will face a deficit of $11.5 trillion over an infinite time span. Only the higher returns promised by private stock market accounts can save the system from collapse.

Don't believe any of this. There is no crisis. According to the Congressional Budget Office, whose director was a Bush senior economist, Social Security will be able to pay full benefits until at least 2052. After then it will still be able to pay at least three quarters of scheduled benefits. Because benefits rise in line with wages, which themselves rise faster than inflation, that three quarters will be higher than current Social Security benefits. Our generation will still be paid more than current retirees.

But even that scenario is pessimistic. It's based on the assumption that the U.S. economy will grow at a rate of 2.0 percent, far slower than the historical rate of 3.4 percent. This low growth rate assumes that productivity will rise approximately 1 percent less than it has for the last fifty years and that the number of immigrants to this country will plummet to less than half its current level. If the economy continues to grow at more reasonable levels, the problem goes away entirely -- there is no Social Security shortfall.

What if the economy performs badly? Privatization advocates say that the stock market offers higher returns and that these can be used to offset any shortfall. They compare a stock market rate of return of seven percent with the much lower returns on Social Security. The truth is that the accounts will return something much lower, about 2.7 percent, when rates of return are honestly calculated and management fees are factored in. This number is similar to Social Security's rate of return, but with much higher risk. And if the economy does as badly as privatization advocates suggest, then private accounts will return even less than that because the stock market will do worse. The Social Security Bulletin, the research journal of the Social Security administration, concurs: "Calculations of the median voter's return from "investing" in Social Security suggest that for a majority of voters the U.S. Social Security system provides higher ex-post, or actual, returns than alternative assets".

Even if the economy does as poorly as some suggest, the current system would still be able to pay full benefits. The CBO estimates that the shortfall after 2052 will be 0.4 percent of GDP per year, or approximately one fifth the long term costs of Bush's tax cuts. It would be fairly easy to raise this small amount of money through a combination of modest benefit cuts and tax increases. So, to repeat and to emphasize this point, I would like to say again: THERE IS NO SOCIAL SECURITY CRISIS.

Bush's plan, if passed, will dramatically increase poverty among the elderly by slashing Social Security benefits to the bone, with eventual cuts in retirement benefits by an average of 46 percent. Only part of this cut will be compensated by personal stock market accounts, and that portion will be highly risky. A few rough years in the stock market or poor investment decisions could leave many destitute. It also increases risk to retirees in other ways. Social Security keeps paying benefits for as long as a retiree lives and it adjusts benefits for inflation, while private accounts would not. Insuring against these problems would further reduce the size of private accounts. If Bush's plan passes, our generation will have less to retire on and will face much higher risk.

The transition to a privatized program would also be hideously expensive, costing $2.2 trillion over the next ten years and $6.6 trillion over the next twenty years. The presence of such enormous and persistent deficits would damage the U.S. economy and destabilize global financial markets. Argentina tried a similar plan in the 1990s, leading to large government deficits and a depression, with unemployment soaring to over 20 percent. Bush's plan would lead to a deficit far larger as a share of our economy than anything Argentina hsd experienced. Do we really want to risk a policy that could cause a new Great Depression? Bread lines, anyone?

If privatization is such a bad idea, why would anyone want to do it? One reason is pure greed. Social Security is highly efficient, spending less than 1% of the money it takes in on administration. Wall Street firms managing large numbers of relatively small accounts would take a far higher proportion. Private accounts could lead to investment firm profits of over $1 trillion over the next 75 years. But I suspect that the more important reason for this push is that these proponents never believed in Social Security. A recent White House memo says: "For the first time in six decades, the Social Security battle is one we can win -- and in doing so, we can help transform the political and philosophical landscape of the country." The battle he refers to must be the old debate over whether Social Security should exist. Some conservatives have never supported Social Security. They were defeated before and must be defeated again. Some Republican members of Congress have expressed skepticism over Bush's plans, and some Democrats have remained silent about privatization. You can help by contacting your member of Congress, asking that as a young constituent, you would like them to oppose Social Security privatization. Our future depends on it.

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THE EMORY WHEEL
Editorials

Social Security: Democrats' high point, Republicans' failing

Tahir Duckett
February 22, 2005

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Social Security has infuriated conservatives for years. Almost certainly the most popular government program ever created, it has maintained a consistent base of support for Democratic politics and provides a terrific example of just how well Democratic policies can work. And like a game of chess, the Republicans have put all the pieces in place to launch an all-out assault on Social Security — our queen, if you will.

But it seems they've chosen the wrong time and the wrong battle. Turns out there quite simply is no crisis, no reason to dramatically overhaul Social Security in a phase-out program. The reality is that Social Security is more financially sound than it has been for much of its history. The worst-case scenario is laid out by the Social Security trustees, who estimate Social Security can pay out all benefits through 2042 and 70 percent of benefits after that. The nonpartisan Congressional Budget Office is more optimistic, arguing it can pay out through 2053 and 80 percent of benefits after that. Existent in neither of their analyses are beliefs that the program will be "bankrupt" or unable to pay out any benefits at all at any portion in the nearly immediate future. Both of them argue that new retirees will still receive more money, in inflation-adjusted dollars, than today's beneficiaries.

Let's say that you believe, for some reason, that a program that will be solvent for the next 40 to 50 years is in a crisis (I wonder what Iraq is …). Even the Bush White House has admitted, reluctantly, that the transition to private accounts will do absolutely nothing at all to solve the "crisis" (Los Angeles Times, Feb. 3). So why continue to push Social Security? It must be much fairer and efficient for younger workers, right?

Wrong. Bush's privatization plan is devastating for young workers. Social Security is far more efficient than private accounts, as they spend 0.6 percent and 15 percent respectively on administrative costs (Center for Economic Policy Research, Nov. 16). The CBO also argues that younger workers would receive better benefits from Social Security as it exists now than it would if it were privatized. Plus, Bush's proposal would require the purchase of an annuity that could not then be passed on to heirs (i.e. surviving spouses). But none of this even gets to the point: Bush is attempting to get rid of the "guaranteed" part of Social Security's "guaranteed benefit." Social Security was created to provide stability even in light of the stock market, which had just crashed. And now we're going to tie Social Security back to the stock market?

The privatization of Social Security will incur $2 trillion in transitional costs (ironically, that amount alone is two thirds of the projected shortfall over the next 75 years), all of which the Bush administration agrees they will be borrowing. By the way, the cost of making Bush's tax cuts permanent? $11.6 trillion over the next ten years.

So let me get this straight. We're going to borrow $2 trillion to fail to fix a system that doesn't need immediate fixing in the hopes that we can get rid of a guaranteed benefit and replace it with a risky program that might, but probably won't, pay out more than we'd get now? And we're going to do it all while cutting the deficit in half in the next five years?

But hey, this is Bush administration logic. Next, we'll hear that invading Iraq will pay for itself ….—*Tahir Duckett is a College senior from Peachtree City*

Social Security Privatization Doesn't Add Up

by Matt Singer, University of Montana

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Matt Singer grew up in Montana and studies Economics at The University of Montana. He rants, spews, cusses, and occasionally muses on the state of affairs at leftinthewest.com.